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SUBJECT: NIGERIA 2008 BUDGET

¶1. Summary: The GON proposes a budget of \$18.66 billion (Naira 2.37 trillion) for the year 2008, 7 billion naira less than 2007 budget. The budget is scheduled to be presented by President Yar'Adua to a joint session of the National Assembly on Thursday, November 8. Total revenue accruable to the Federation Account in 2008 is projected at USD 36.58 billion (4.646 trillion naira) while the benchmark oil price is U.S dollar 53.8 per barrel, with a gross production target of 2.44 million barrels per day with 1.55 million barrels per day from Joint Venture (JV) production contributing to the budget. The projected budget deficit is USD 2.32 billion (295 billion naira) representing 1.6 percent of the Gross Domestic Product (GDP). The Government of Nigeria has capped the excess crude account at USD 8 billion yearly starting from 2008. End summary.

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Budget 2008 Parameters

¶2. The 2008 budget is based on the following assumptions and targets:

- Crude oil benchmark price of USD 53.8 per barrel;
- Crude oil production of 1.55 million barrels per day;
- Joint Venture Cash Calls of USD 5 billion;
- GDP growth of 10 percent;
- Value Added Tax rate of 5 percent.

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Budget 2008 Highlights

¶3. It is projected that U.S dollar 36.58 billion (Naira 4.646 trillion) would accrue to the Federation Account to be shared by the three tiers of government. Federal Government's total revenue would be USD 16.35 billion (Naira 2.076 trillion), comprising oil revenue of USD 12.42 billion (Naira 1.577 trillion); Value Added Tax of USD 338.58 million (Naira 43 billion); Companies Income Tax of USD 1.33 billion (Naira 169 billion); Customs and Excise Duties of USD 960.63 million (Naira 122 billion); and Federal Government independent revenue of USD 944 million (Naira 120 billion) accruable from investments in commercial enterprises.

¶4. Federal aggregate expenditure is projected at USD 18.32 billion (2.327 trillion naira), representing a marginal reduction of 2.3 percent from 2007. The total expenditure is composed of:
--recurrent non-debt expenditure of USD 9.26 billion (1.18 trillion

naira);
--capital expenditure of USD 4.47 billion (567.7 billion);
--statutory transfers of USD 1.35 billion (171.5 billion naira); and

--debt service of USD 3.25 billion (412.3 billion naira)

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Deficit Financing

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¶4. Total projected Federal expenditure is USD 18.31 billion (Naira 2.327 trillion), and would result in a projected budget deficit of USD 2.32 billion (Naira 295 billion) or 1.6 percent of GDP. The projected deficit would be financed through USD 236.22 million (Naira 30 billion) expected proceeds from the sale of federal government properties; U.S dollar 590.55 million (Naira 75 billion) privatization proceeds and signature bonuses; and USD 1.57 billion (Naira 200 billion) from the domestic bond market.

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Debt Service

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¶5. At the end of June 2007 the total debt stock was USD 19.69 billion (2.4 trillion naira), comprising domestic debt of U.S dollar 16.2 billion (2.06 trillion naira, and external debt of USD 3.49 billion (443.23 billion naira). Total projected debt service is USD 3.25 billion (Naira 412.3 billion), a 38.8 percent increase relative to the figure in 2007. The debt service is made up of USD 2.41 billion (Naira 306.2 billion) for domestic debts, USD 472.44 million (40 billion naira) for liquidity management, and USD 519.69 million

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(Naira 66 billion) for foreign debt service.

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Statutory Transfers

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¶6. Total estimated statutory transfers in 2008 are USD 1.35 billion (171.5 billion naira).
-- USD 466.14 million (59.2 billion naira) to the National Judicial Council, a 38 percent increase.
-- USD 564.6 million (71.7 billion naira) to the Niger Delta Development Commission, a 300 percent increase.
-- USD 319.66 million (40.6 billion naira) to the Universal Basic Education Commission, representing a 15 percent increase.

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Excess Crude Account

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¶7. The Presidential Committee on the Excess Crude Account (ECA) has proposed that from 2008, any balance in the ECA above USD 7.87 billion (1 trillion naira) be shared in the following year. A total USD 3.60 billion programmed sharing from the ECA is expected in
¶2008.
--USD 1.65 billion (209 billion naira) to the Federal Government;
--USD 834.65 million (106 billion naira) to states;
--USD 645.67 million (82 billion naira) to local government authorities;
--USD 464.57 million (59 billion naira) as derivation funds for oil producing states.

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Comment

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18. The proposed budget is more realistic in addressing problems of over-estimation of crude oil production and poor forecasting of oil revenues. However, revenue from oil still constitutes the major source of government revenue at 82 percent, with 6 percent from Value Added Tax (VAT), 5 percent from custom duties, and 7 percent from company income tax (CIT). Though a little less ambitious in capital projects for development than in 2007, the new administration has promised to implement the capital budget fully. As a developing nation with decaying infrastructures, Nigeria needs to do better at executing its capital expenditures. We expect the National Assembly to subject the 2008 Budget to much greater scrutiny than in past years. End comment.

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